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## INTERIM REPORT

For The Nine Months Ended  
September 30, 1978

P.O. Box 2850  
Calgary, Alberta  
T2P 2B5

Platform for High Island Blocks 368 and 351 is proceeding. PanCanadian has a 5% interest in this development.

In Wyoming, PanCanadian has varying interests in 4 gas wells that have been completed with a total capacity of 6.5 million cubic feet per day. Two of these wells should be on stream in the near future.

Exploration on the block offshore Australia commenced in the third quarter and 1,100 miles of seismic have been completed. Exploratory geophysics will continue and drilling is scheduled to begin in 1979.

The level of transportation charges requested by pipeline transmission companies is of continuing concern to PanCanadian. Federal-Provincial agreed price increases for gas are being nullified by rate increases sought by transmission companies. On August 1, 1978 the Toronto city-gate price of natural gas increased 15¢ per Mcf, while the transmission costs increased 10.7¢ per Mcf, resulting only in a net of 4.3¢ per Mcf increase to the producers and royalty owners. Strong objections to the rate increases sought by the transmission Company were made by PanCanadian and other producers at the May-June 1978 NEB rate hearings.

PanCanadian has also made a submission to the October 1978 NEB inquiry on the supply of and requirements for Canadian natural gas. Based on current economics, the submission concludes that production capability from presently discovered and connected gas reserves in western Canada will exceed domestic requirements and volumes currently authorized for export through 1983. Furthermore, modest expectations of production from future reserves additions from western Canada will extend these surpluses until the late 1990's and production from the frontier regions will supply Canada's needs well into the next century.

*Robert W. Campbell*  
*J. M. Taylor*

Robert W. Campbell  
Chairman of the Board and  
Chief Executive Officer

J. M. Taylor  
President

Calgary, Alberta  
October 19, 1978

During the first nine months, 393 wells were drilled on land in which PanCanadian has a working interest. Of these, 121 were exploratory wells and 272 were development tests. Exploratory tests resulted in 8 oil wells and 53 gas wells; of the development wells, 32 were oil and 219 were gas.

In Alberta, our activity at Crown land sales continued, with the acquisition of interests in 18 parcels totalling 51,360 gross acres. In the Elmworth-Knopsik portion of the Deep Basin area in west central Alberta, interests in 6 parcels totalling 31,200 gross acres were acquired bringing your Company's holdings in this region to 534,928 gross acres. The Company is currently participating in four wildcat wells on the Elmworth Trend. Elsewhere in the Deep Basin, a well at Pinto is being evaluated and in the Alberta Foothills, a well in the Findley area is being production tested.

In the West Pembina Nisku play, interests in an additional 7 parcels totalling 17,600 gross acres were acquired at Crown sales. Your Company's holdings in this area now total 210,600 gross acres. PanCanadian has a 35% interest in an indicated Devonian oil well at Brazeau River 10-25-48-13 W5M.

Drilling elsewhere in southern Alberta continued and discoveries include a new oil pool west of County which indicated an initial production rate of 350 barrels per day from one well.

In northeastern British Columbia, activity continued with the acquisition of interests in 5 Crown parcels for a total of 24,038 gross acres. Drilling is underway in the Progress area and further drilling in this province is anticipated as weather conditions permit.

In the United States, PanCanadian participated in the drilling of 50 wells during the first nine months. Of these, 15 have been completed as potential gas wells and 7 as potential oil wells.

During the last three months, two significant discoveries have been made in California and Louisiana. The Hasting Ranch 1-22 Well in Solano County, California, in which PanCanadian has a 25% working interest is a dual pay zone discovery that tested 8 and 5.5 million cubic feet of natural gas and condensate from the two Winters sands. The Columbia Gas No. 1 Hawthorne Well in St. James Parish, Louisiana, in which PanCanadian has a 25% working interest tested in excess of 500 barrels of oil per day. Production evaluation of both these discoveries is underway.

A second gas well was drilled on the Eugene Island Block 43 in the Gulf of Mexico that indicates additional gas reserves. Design and fabrication of the



# NINE MONTHS COMPARATIVE HIGHLIGHTS

FINANCIAL (thousands of dollars)	September 30	
	1978	1977
Gross income .....	\$248,695	\$217,833
Funds from operations .....	155,770	127,806
Per share .....	4.99	4.09
Net income .....	103,596	88,372
Per share .....	3.32	2.83
Capital expenditures .....	115,844	76,047
PRODUCTION AND SALES		
(net daily average)		
Crude oil — barrels .....	30,817	30,832
Natural gas liquids — barrels .....	2,662	2,578
Empress plant — natural gas liquids — barrels .....	13,370	13,245
Natural gas — million cubic feet .....	46,849	46,655
	272	265

Net income for the nine months ended September 30, 1978 was \$103.6 million, up 17% from the previous year and funds from operations increased 22% due to higher prices and increased production for natural gas.

Crude oil production remained at the same level as the previous year and averaged 30,817 barrels per day. Natural gas production rose by 3% to 272 million cubic feet per day.

During the first nine months of 1978 capital expenditures were \$115.8 million, up 52% from the previous year.

Sales of heavy crude production are expected to continue at high levels as a result of the recent National Energy Board (NEB) report. The NEB concluded that there is sufficient heavy crude available to satisfy Canada's requirements for many years, and recommended that surplus heavy crude continue to be exported to the United States.

The first heavy oil production from the pilot project at the Marguerite Lake field of the Cold Lake area commenced during the third quarter. The pilot project of cyclic steam stimulation followed by in-situ wet combustion started with the first steam injection and subsequent heavy oil production. PanCanadian has a 12½% interest.

## CONSOLIDATED FINANCIAL SUMMARY

(thousands of dollars)

September 30	
1978	1977
<b>Balance Sheet</b>	
Current assets .....	\$138,355
Current liabilities .....	58,979
Working capital .....	79,376
Property, equipment and other assets .....	622,834
	702,210
Long-term debt .....	116,570
Deferred credits .....	167,093
Shareholders' equity .....	\$418,547
Shares outstanding .....	31,219,534
	31,219,534

### Changes in Financial Position

Source of working capital:		
Funds from operations .....	\$155,770	\$127,806
Other .....	305	—
	156,075	127,806
Application of working capital:		
Capital expenditures — net .....	115,844	76,047
Reduction of long-term debt .....	3,062	3,687
Dividends .....	15,290	14,358
Other .....	319	334
	134,515	94,426
Increase in working capital .....	\$ 21,560	\$ 33,380

### Statement of Income

Gross income .....	\$248,695	\$217,833
Operating and administrative expenses .....	52,067	50,630
Interest expense .....	8,957	9,245
Depreciation, amortization and depletion expenses .....	29,616	23,878
	90,640	83,753
Income before income taxes .....	158,055	134,080
Provision for income taxes .....	54,459	45,708
Net income .....	\$103,596	\$ 88,372
Per share .....	\$3.32	\$2.83

“Unaudited”